

Message Text

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FM AMEMBASSY TOKYO
TO SECSTATE WASHDC 8787
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME

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BRUSSELS FOR US MISSION EC

PARIS ALSO FOR US MISSION OECD

E.O. 11652: GDS
TAGS: EFIN, JA
SUBJECT: JAPAN AND TARGETS FOR MACRO-ECONOMIC PERFORMANCE

1. SUMMARY: AT THE LONDON SUMMIT, THE GOVERNMENT OF JAPAN,
ALONG WITH OTHER SUMMIT PARTICIPANTS, MADE SOME FAIRLY
SPECIFIC COMMITMENTS WITH RESPECT TO ITS MACRO-ECONOMIC
PERFORMANCE. AS AN INPUT TO THE MONITORING PROCESS ALSO
AGREED IN LONDON, EMBASSY TOKYO SUGGESTS THAT JAPAN IS
FAIRLY WELL POSITIONED TO ACHIEVE ITS TARGET OF 6.7
PERCENT REAL GROWTH IN THE FISCAL YEAR (1977) WHICH BEGAN
APRIL 1. JAPAN IS, HOWEVER, ALSO ALMOST ASSURED OF A CUR-
RENT ACCOUNT SURPLUS IN CALENDAR YEAR 1977 OF EMBARRASSING
PROPORTIONS. THIS LATTER PROSPECT (NO MATTER HOW JAPAN'S
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PERFORMANCE ULTIMATELY STACKS UP AGAINST ITS OWN FORE-
CASTS FOR THE FISCAL YEAR OR THE POSSIBLY MORE CAREFULLY
WORDED OBJECTIVES OF THE LONDON SUMMIT) MAKES IT REASONABLE
TO ASK, IN THE LANGUAGE OF THE SUMMIT, "WHAT DETERMINED
ACTION ON THE PART OF JAPAN IS NEEDED TO ACHIEVE THE
DESIRED DISTRIBUTION OF INTERNATIONAL PAYMENTS DEFICITS?"
EMBASSY SUGGESTS THE DESIRABILITY AT THIS JUNCTURE OF

PLACING EMPHASIS ON ACTIONS TO OPEN UP THE JAPANESE MARKET TO FOREIGN IMPORTS. END SUMMARY.

2. THE PURPOSE OF THIS MESSAGE IS TO PROVIDE EMBASSY VIEWS OF EXPECTED JAPANESE PERFORMANCE IN MEETING THE ECONOMIC GROWTH AND EXTERNAL BALANCE TARGETS FIXED AT THE LONDON SUMMIT LAST MONTH (AND ELSEWHERE, FOR THAT MATTER). WE ALSO MAKE SOME SUGGESTIONS AS TO WHAT FURTHER ACTIONS JAPAN MIGHT BE ASKED TO TAKE AS A RESULT OF DISCREPANCIES BETWEEN GOALS AND PERFORMANCE.

3. ACCORDING TO OUR READING OF THE AGREED PUBLIC CONCLUSIONS OF THE LONDON SUMMIT, JAPAN, ALONG WITH CERTAIN OTHER PARTICIPANTS, COMMITTED ITSELF TO STATED ECONOMIC GROWTH TARGETS WHICH SHOULD, IN CONJUNCTION WITH STABILIZATION POLICIES BY OTHER NATIONS, PROVIDE A BASIS FOR SUSTAINED NONINFLATIONARY GROWTH AND FOR REDUCTION OF IMBALANCES IN INTERNATIONAL PAYMENTS. WITH A VIEW TO ACHIEVING ITS GROWTH TARGET FOR 1977, JAPAN SAID IT WOULD KEEP ITS POLICIES UNDER REVIEW AND COMMITTED ITSELF TO ADOPT FURTHER POLICIES IF NEEDED TO ACHIEVE ITS STATED TARGET RATE AND TO CONTRIBUTE TO THE ADJUSTMENT OF PAYMENTS IMBALANCES. IT ALSO ENDORSED THE VIEW THAT DETERMINED ACTION BY SURPLUS AS WELL AS DEFICIT COUNTRIES WOULD BE NEEDED IN ORDER FOR THE DEFICIT OF THE OIL-IMPORTING NATIONS AS A GROUP TO BE DISTRIBUTED AMONG THEM IN A PATTERN COMPATIBLE

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WITH THEIR ABILITY TO ATTRACT CAPITAL ON A CONTINUING BASIS. AS AN INDUSTRIAL COUNTRY IN A RELATIVELY STRONG PAYMENTS POSITION, JAPAN ACCEPTED THE IMPORTANCE OF ENSURING CONTINUED ADEQUATE EXPANSION OF DOMESTIC DEMAND, WITHIN PRUDENT LIMITS, AND AGREED IT SHOULD PROMOTE INCREASED FLOWS OF LONG-TERM CAPITAL EXPORTS. FINALLY, JAPAN AGREED THAT THE SUMMITTING NATIONS SHOULD REVIEW PROGRESS ON ALL THE MEASURES DISCUSSED AT DOWNING STREET IN ORDER TO MAINTAIN THE MOMENTUM OF RECOVERY.

4. IN THE DOMESTIC CONTEXT, THE JAPANESE ARE CONFIRMED TARGETEERS. THE GOVERNMENT USES A DOMESTIC PLANNING MECHANISM WHICH DEVELOPS BOTH REGIONAL AND NATIONAL PLANS WITH SHORT, MEDIUM AND LONG RANGE HORIZONS. THE BASIC PLAN IS THE PRESENT MEDIUM-TERM ECONOMIC PLAN, WHICH CURRENTLY FIXES GUIDELINES FOR THE PERIOD 1976-1980 FOR THE MAIN ECONOMIC AGGREGATES. WHILE JAPANESE PLANNING IS NOT PLANNING SOVIET STYLE, THEY DO PREPARE PLANS WITH A GOOD DEAL OF CARE, ATTENTION AND DEBATE; AND SIZEABLE DEVIATIONS OF PERFORMANCE FROM THE PLAN PROJECTIONS DO OCCASION DIET AND PRESS CRITICISM. IN CONJUNCTION WITH THE PREPARATION OF THE BUDGET, THE GOVERNMENT ALSO PREPARES

ANNUAL PROJECTIONS FOR THE MAJOR DOMESTIC ECONOMIC AND SOCIAL AGGREGATES AND FOR THE FOREIGN BALANCE. WHILE THESE ARE TECHNICALLY PROJECTIONS, JAPANESE POLITICIANS CHARACTERISTICALLY DO NOT MAINTAIN ANY FINE LINGUISTIC DISTINCTIONS IN THIS RESPECT AND APPEAR TO ACCEPT RATHER READILY THAT A WELL-PUBLICIZED PROJECTION OF A MAJOR AGGREGATE BY THE GOVERNMENT IS IN PRACTICE NOT VERY DIFFERENT FROM A TARGET.

5. THUS THE JAPANESE WERE ALREADY WELL OUT IN FRONT WHEN THE RECENT EXERCISE AIMED AT ESTABLISHING INTERNATIONAL AGREEMENT ON TARGETS BEGAN. THEY HAVE SEEMED PARTICULARLY PLEASED TO OFFER THE HIGHEST--AT 6.7 PERCENT IN REAL TERMS FOR FY 77--TARGET FOR DOMESTIC ECONOMIC GROWTH
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AMONG THE MAJOR ADVANCED NATIONS. HOWEVER, THEY HAVE BEEN LESS PLEASED TO FIND ATTENTION FOCUSED ON THEIR PROJECTION OF A DOLS 0.7 BIL CURRENT ACCOUNT DEFICIT IN FY 1977. IN PART, THIS RELUCTANCE MAY BE EXPLAINED BY THE FACT THAT WHEN THIS PART OF THEIR FORECAST WAS BEING PREPARED LATE LAST YEAR, IT WAS NOT INTENDED TO BE TAKEN AS SERIOUSLY AS IT NOW IS, AND THEY ARE DISTINCTLY UNCOMFORTABLE AT HAVING THEIR FEET HELD TO A FIRE FOR WHICH THEY SUPPLIED THE FUEL IF NOT THE MATCHES. THEIR DISCOMFORT HAS INCREASED AS SUBSEQUENT PROJECTIONS, BASED ON LATER DATA, HAVE MADE THEIR ESTIMATE LESS TENABLE.

6. AGAINST THIS BACKGROUND, WE HAVE EXAMINED THE PROSPECTS THAT JAPAN WILL BE ABLE TO ACHIEVE THE STATED TARGETS. AS SUGGESTED ABOVE, OUR READING OF THE SUMMIT COMMUNIQUE IS THAT JAPAN COMMITTED ITSELF TO ADOPT NECESSARY POLICIES TO ACHIEVE ITS TARGET OF 6.7 PERCENT REAL GROWTH IN THE FISCAL YEAR 1977, WHICH BEGAN APRIL 1. AND IT RECOGNIZED THE IMPORTANCE OF ENSURING CONTINUING ADEQUATE EXPANSION OF DOMESTIC DEMAND, BECAUSE OF THE INTERNATIONAL PAYMENTS SITUATION.

7. PROSPECTS FOR THE GROWTH OF CONSUMPTION, WHICH ACCOUNTS FOR SOME 55 PERCENT OF GNP, ARE CRITICAL IN THIS RESPECT. CONSUMER DEMAND IS NOT BUOYANT, BUT EVEN IN THE RATHER DEPRESSED MOOD OF THE PAST THREE QUARTERS, IT HAS CONTINUED TO GROW AT MODERATE RATES. DURING THE FIRST QUARTER OF THIS YEAR, WHEN THE MONTHLY INDICATORS WERE MOSTLY DISCOURAGING, CONSUMPTION WAS GROWING AT OVER A 5 PERCENT SAAR IN REAL TERMS. AND, WITHOUT SUGGESTING ANY DRAMATIC TAKEOFF, IT SEEMS TO US LIKELY THAT CONSUMER DEMAND WILL PROVIDE A LITTLE MORE SUPPORT FOR RECOVERY IN THE QUARTERS AHEAD THAN IT DID IN THE QUARTERS RECENTLY PAST, PARTICULARLY IF THE HOPED FOR PROGRESS AGAINST INFLATION CAN BE
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ACHIEVED. THE GOVERNMENT SECTOR AND HOUSING CAN BE EXPECTED TO PROVIDE A FAIRLY STRONG BOOST TO THE ECONOMY, AT LEAST OVER THE NEXT SIX MONTHS OR SO. PRIVATE INVESTMENT IN PLANT AND EQUIPMENT CONTINUES TO LOOK LISTLESS, AT BEST, BUT WE HOPE WILL NOT BE A HEAVY DRAG ON THE ECONOMY. MOST OBSERVERS BELIEVE THAT THE REAL QUESTION ABOUT THE OUTLOOK

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IS WHETHER SIX MONTHS FROM NOW, WHEN FISCAL STIMULUS BEGINS TO LOSE ITS LUSTER, INVESTMENT ATTITUDES WILL HAVE IMPROVED. IN THIS CONDITION, BUSINESS REACTION TO THE RECENT DISCOUNT RATE CUT WILL BE A KEY FACTOR.

8. WITH THE STRONG SPURT IN ECONOMIC ACTIVITY IN THE LAST QUARTER OF FISCAL YEAR 1976 (JAN-MAR 1977), WHEN GROWTH HIT A 10 PERCENT SEASONALLY ADJUSTED ANNUAL RATE, JAPAN

WAS ALREADY FAIRLY WELL POSITIONED TO ACHIEVE A SUBSTANTIAL GROWTH RATE IN THIS FISCAL YEAR. A NUMBER OF RESPECTED ECONOMISTS HAVE PREDICTED FURTHER STRONG GROWTH IN THE FIRST AND PERHAPS SECOND QUARTERS OF THIS FISCAL YEAR, IN LARGE MEASURE DUE TO THE GOVERNMENT'S EFFORTS TO CONCENTRATE STIMULUS FROM THE FY 1977 BUDGET IN THAT PERIOD.

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STRONG GROWTH EARLY IN THE YEAR WOULD MEAN THAT GROWTH IN THE LAST HALF OF THE FISCAL YEAR COULD SLOW DOWN SOMEWHAT WITHOUT NECESSARILY CAUSING THE TARGET TO GO OUT THE WINDOW. IN OTHER WORDS, THE PATTERN OF LAST YEAR, WHEN JAPAN WAS WELL ON ITS WAY TO ACHIEVING ITS GROWTH TARGET AS A RESULT OF THE STRONG PERFORMANCE IN THE FIRST HALF OF THE CALENDER YEAR, COULD WELL BE REPEATED AGAIN THIS YEAR. (IN FACT, THEY ACTUALLY EXCEEDED LAST YEAR'S TARGET OF 5.7 PERCENT, SLIGHTLY, ACHIEVING A 5.8 PERCENT RATE ON THE STRENGTH OF THE STRONG JAN-MAR 1977 PERFORMANCE.)

9. IT MIGHT BE ASKED WHETHER JAPAN'S GROWTH AND EXTERNAL BALANCE TARGETS CAN BE ACHIEVED CONCURRENTLY. AS RECALLED ABOVE, JAPAN NOT ONLY PROJECTS A SWING INTO A SMALL DEFICIT ON NET EXPORTS IN THE CURRENT FISCAL YEAR BUT RECOGNIZED AT THE LONDON SUMMIT THE IMPORTANCE OF ENSURING CONTINUING ADEQUATE EXPANSION OF DOMESTIC DEMAND, PRESUMABLY MEANING AT LEAST THAT IT IS NOT SEEKING EXPORT-LED GROWTH. SINCE THE CURRENT SURPLUS IN THE LAST FISCAL YEAR, AT \$4.7 BIL, WAS ALREADY LARGER THAN THE FORECAST \$2.1 BIL, ACHIEVEMENT OF THE FORECAST DEFICIT FOR THIS FY WOULD REPRESENT AN EVEN GREATER DRAG ON ECONOMIC ACTIVITY THAN WAS ANTICIPATED AT THE TIME FORECASTS WERE PREPARED. HOWEVER, THE AMOUNT OF THE ADDITIONAL DRAG IS LESS THAN 0.4 PERCENT OF GNP, WHICH, FOR EXAMPLE, COMPARES WITH THE 0.2 PERCENT OF ADDITIONAL STIMULUS PROVIDED BY THE ADDITIONAL TAX CUT INCORPORATED IN THE FY 1977 BUDGET. AND INTEREST RATE POLICY HAS ALSO BEEN EASED SUBSTANTIALLY SINCE THE ORIGINAL GOVERNMENT FORECASTS WERE MADE. THE ADDITIONAL DRAG OF A DECLINING CURRENT BALANCE THEN SHOULD BE A NEGATIVE BUT NOT DECISIVE FACTOR ON THE PROSPECT FOR GROWTH. THIS, OR COURSE, COMES AS NO REAL SURPRISE, SINCE JAPAN EXPORTS ONLY ABOUT 15 PERCENT OF ITS GNP. JAPAN MUST

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EXPORT TO BUY CERTAIN VITAL IMPORTS AND HAS STRUCTURAL PROBLEMS IN IMPORTANT EXPORT INDUSTRIES (CERTAIN KINDS OF STEEL AND SHIPS NOTABLY). BUT IT DOES NOT HAVE TO HAVE

GROWING CURRENT ACCOUNT SURPLUSES IN ORDER TO SUSTAIN ECONOMIC ACTIVITY. IN THIS CONNECTION IT IS WORTH RECALLING THAT FINAL DOMESTIC DEMAND GREW AT A 7 PERCENT SAAR IN THE JAN-MAR 1977 QUARTER.

10. ALTHOUGH WE ARE AWARE THAT MANY ARE LESS SANQUINE, EMBASSY THUS BELIEVES THERE IS A FAIR PROSPECT THAT JAPAN CAN ACHIEVE SOMETHING LIKE ITS 6.7 PERCENT TARGET FOR FY 1977 GROWTH (OR STATED MORE REASONABLY, GROWTH IN THE 6-7 PERCENT RANGE) AND WE DON'T BELIEVE IT WOULD BE THAT DIFFICULT FOR JAPAN TO DO SO ON THE BASIS OF EXPANSION OF DOMESTIC DEMAND. (THIS VIEW ASSUMES, OF COURSE THAT THERE WILL BE NEITHER ANOTHER ROUND OF INTERNATIONAL INFLATION NOR SHOCKS UNDERMINING CONFIDENCE.) SINCE NEITHER ANOTHER DISCOUNT RATE CUT NOR A SUPPLEMENTAL BUDGET OF MODEST PROPORTIONS WOULD BE PARTICULARLY SURPRISING, THE ODDS OF MAKING THE TARGET ON THE BASIS OF LIKELY, RATHER THAN PRESENT, POLICY, ARE SOMEWHAT HIGHER. IN ANY EVENT, PRIME MINISTER FUKUDA IS AT LEAST AS COMMITTED DOMESTICALLY AS HE IS INTERNATIONALLY TO TAKING SUCH FURTHER ACTION AS MAY BE NECESSARY TO ACHIEVING HIS GROWTH TARGET.

11. BUT WHAT OF THE PROSPECT THAT JAPAN WILL IN FACT ACHIEVE EITHER ITS OWN TARGET OF A CURRENT ACCOUNT DEFICIT OF \$0.7 BIL IN FY 1977, OR EVEN THE POSSIBLY MORE CAREFULLY WORDED OBJECTIVES WITH RESPECT TO EXTERNAL PERFORMANCE APPEARING IN THE PUBLISHED DOCUMENTATION OF THE LONDON SUMMIT? CERTAINLY, THE RECENT STRENGTHENING OF THE CURRENT ACCOUNT TO A \$4.3 BIL SURPLUS IN THE FIRST FIVE MONTHS OF CALENDAR YEAR 1977, GIVES REASON FOR DOUBT THAT JAPAN WILL EVEN BE MOVING IN THE RIGHT DIRECTION, ALTHOUGH SEVERAL NOTES OF CAUTION SHOULD BE BORNE IN MIND. ONE IS THAT THE SURPLUS THUS FAR IN FISCAL YEAR 1977 -- IN APRIL

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AND MAY -- IS ONLY \$1.9 BIL, AND THE ACCELERATION OF ECONOMIC RECOVERY, WHICH SHOULD ULTIMATELY BOOST IMPORTS, IS VERY RECENT. ALSO, UNLESS LARGE SURPLUSES SHOULD CONTINUE UNABATED IN THE MONTHS AHEAD, THE JAPANESE POSITION IN THE FISCAL YEAR WILL BE STRONGLY INFLUENCED BY WHAT HAPPENS IN THE VERY HEAVY AND DIFFICULT TO PREDICT TRADING AROUND THE END OF THE CALENDAR -- WHICH MAY BE TAKING PLACE IN A CONSIDERABLY DIFFERENT ENVIRONMENT THAN AT PRESENT. FINALLY, IT SHOULD BE RECALLED THAT BALANCES IN INTERNATIONAL PAYMENTS ARE RATHER VOLATILE MEASURES, SO THERE IS A GREAT DEAL MORE UNCERTAINTY SURROUNDING ANY PROJECTION OF AN EXTERNAL BALANCE THAN OF AN AGGREGATE SUCH AS THE NATIONAL ACCOUNTS.

12. EMBASSY BELIEVES THAT THE BEST POLICY ASSUMPTION IS

THAT THE MONTHS AHEAD SHOULD BRING SOME DECREASE IN THE JAPANESE CURRENT ACCOUNT SURPLUS FROM RECENT RATES, BUT NOT THE SORT OF TAKEOFF IN IMPORTS AND LEAD TO A CURRENT ACCOUNT DEFICIT FOR JAPAN. THE PROSPECTS FOR SHIPS, STEEL, TV'S, AUTOMOBILES AND SO ON RATHER CLEARLY SUGGEST THAT THE EXPORT GROWTH RATES OF THE PAST 15 MONTHS OR SO ARE NOT SUSTAINABLE. THERE SHOULD, AS SUGGESTED ABOVE, ALSO BE SOME PICKUP IN IMPORTS IF THE ECONOMY CONTINUES, AS IN JAN-MAR 1977, TO GROW SIGNIFICANTLY MORE RAPIDLY THAN IN THE LAST HALF OF CY 1976. BUT INVENTORIES OF RAW MATERIALS HAVE ONLY BEEN PARTIALLY WORKED OFF FROM RECESSION PEAKS, AND THEY ARE STILL FAIRLY HIGH BY HISTORICAL STANDARDS. AN IMPORT BOOM IN JAPAN WOULD SEEM TO REQUIRE AN INDUSTRIAL BOOM, AND BY NO STRETCH OF THE IMAGINATION IS SUCH A BOOM IN SIGHT.

13. THUS A RELATIVELY STRONG CURRENT EXTERNAL POSITION SEEMS IN PROSPECT FOR JAPAN FOR AT LEAST A QUARTER OR TWO
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AHEAD, EVEN THOUGH (A) A REDUCTION IN THE SURPLUS SEEMS LIKELY, AND (B) LATER IN THE YEAR THE REDUCTION COULD BE OF MEANINGFUL PROPORTIONS. THE MOST RECENT FORECAST BY THE OECD OF A \$6 BIL CURRENT ACCOUNT SURPLUS FOR JAPAN IN CALENDAR YEAR 1977 STRIKES THE EMBASSY AS A USEFUL ONE, SINCE (A) GIVEN THE SURPLUS IN JAN-MAY, IT SEEMS REASONABLE (OR EVEN CONSERVATIVE) ON THE SURFACE; (B) IT IMPLIES THERE MAY EVEN BE AN INCREASE IN THE JAPANESE SURPLUS DURING THE PRESENT FISCAL YEAR (IT PROJECTS A \$3.7 BIL SURPLUS IN THE FIRST THREE QUARTERS OF FY 1977, VERSUS THE \$4.7 BIL SURPLUS IN THE FULL FY 1976); AND (C) IT REPRESENTS AN EMBARRASSINGLY LARGE SURPLUS FOR THE CALENDAR YEAR. IT THUS ADEQUATELY SUPPORTS ASKING FOR THAT DETERMINED ACTION OF THE PART OF JAPAN TO ACHIEVE THE DESIRED DISTRIBUTION

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BRUSSELS FOR US MISSION EC

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OF INTERNATIONAL PAYMENTS DEFICITS CITED BY THE LONDON
SUMMIT.

14. APART FROM MEETING GROWTH TARGETS, VARIOUS POSSIBLE
MEANS TO THIS END HAVE BEEN MENTIONED, AMONG THEM EXCHANGE
RATE APPRECIATION; INCREASED DEVELOPMENT ASSISTANCE; AND
IMPORT LIBERALIZATION. (WE ASSUME EXPORT RESTRAINTS,
ALTHOUGH NECESSARY IN CASES WHERE INJURY OCCURS, ARE
NEITHER FEASIBLE OR PROPER AS A POLICY.) CERTAINLY IF THE
JAPANESE CURRENT ACCOUNT POSITION REMAINS STRONG, SOME
FURTHER APPRECIATION OF THE EXCHANGE RATE WOULD NOT BE
SURPRISING, AND THIS SHOULD HAVE THE DESIRED IMPACT IN THE
LONGER RUN IF NOT NECESSARILY IN THE SHORT RUN. INCREASED
DEVELOPMENT ASSISTANCE IS HIGHLY DESIRABLE FOR A COUNTRY
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WHICH DOES NOT STACK UP VERY WELL BY CURRENT INTERNATIONAL
STANDARDS, BUT, GIVEN BUDGETARY CONSTRAINTS, AND POLITICAL
REALITIES, IT IS NOT LIKELY TO PROVIDE MORE THAN A VERY
PARTIAL ANSWER TO THE PROBLEM OF A LARGE CURRENT ACCOUNT
SURPLUS. BUT IT IS EFFORTS TO OPEN UP JAPAN TO MORE IMPORTS
WHICH MAY DESERVE THE GREATEST ATTENTION IN THE CURRENT CONTEXT.

15. ONE REASON THIS LAST COURSE SEEMS TO US ATTRACTIVE AT
PRESENT IS THAT SOME OTHER APPROACHES TO ENCOURAGE JAPAN
TO CORRECT ITS PAYMENTS IMBALANCES ARE ALREADY BEING WELL
EXPLOITED. FOR EXAMPLE, LAST YEAR'S EXPERIENCE WITH
CONGRESSMAN REUSS AND OTHERS LEFT THE JAPANESE STRONGLY
AWARE OF THE VIRTUES OF NON-INTERVENTION IN THE FOREX
MARKET; THEY KNOW THE PRESENT ADMINISTRATION'S VIEWS
ON EXCHANGE RATE ADJUSTMENT; AND OCCASIONAL MENTION ON SUIT-

ABLE OCCASIONS SHOULD BE ADEQUATE. THEY ARE FIRMLY COMMITTED TO EXPANSION OF DOMESTIC DEMAND AS A MEANS OF ASSISTING WORLD RECOVERY, AND TO PUSH THEM FURTHER ON GROWTH MIGHT SERVE ONLY TO BUILD UP THEIR HOPES THAT A GOOD GROWTH PERFORMANCE WILL SUFFICE TO MEET THEIR INTERNATIONAL OBLIGATIONS (WHICH THEY WOULD VERY MUCH LIKE TO BELIEVE).

16. THE BASIC ATTRACTION, HOWEVER, OF SEEKING A JAPANESE MARKET WHICH IS MORE OPEN TO IMPORTS IS THAT A GREATER OPENESS SEEMS TO US A CONDITION PRECEDENT TO AN EFFECTIVELY OPERATING INTERNATIONAL ADJUSTMENT PROCESS. THE EFFECTIVENESS OF EXCHANGE RATE CHANGES, OF THE OPERATION OF THE PRICE MECHANISM, AND EVEN OF LIBERALIZATION OF QUANTITATIVE IMPORT RESTRICTIONS, IS SERIOUSLY IMPAIRED BY STRUCTURAL FEATURES OF THE JAPANESE ECONOMY. PERHAPS THE BEST KNOWN, BUT BY NO MEANS THE ONLY ONE OF THESE FEATURES, IS THE DOMINANT ROLE OF THE MAJOR BUSINESS COMBINES AND THEIR CONFIDENTIAL

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RELATED TRADING COMPANIES WHICH HAVE A VESTED INTEREST IN NOT IMPORTING PRODUCTS WHICH COMPETE WITH THE PRODUCTS OF THEIR ALLIED DOMESTIC FIRMS. THE 29 BIGGEST TRADING COMPANIES HANDLE OVER 60 PERCENT OF JAPAN'S INTERNATIONAL TRADE AND WHILE THEY CAN CLAIM A GOOD RECORD AS IMPORTERS, THEY ALSO CAN AND DO SELECT RESTRICTIVELY WHAT THEY IMPORT.

17. THUS IT SEEMS TO THE EMBASSY THAT WE SHOULD BE SAYING TO JAPAN THAT THE TIME HAS COME TO START AN EFFORT, ADMITTEDLY LONG-TERM, TO MOVE TOWARD AN ECONOMY GENUINELY MORE OPEN TO THE PRODUCTS OF OTHER NATIONS. THE EMBARRASSING SURPLUS OF THE PAST MONTHS IS ONLY ONE EXAMPLE OF A RECURRING PROBLEM. WE WOULD NOT BASE OUR CASE FOR A MORE OPEN ECONOMY ON THAT FACT ALONE, WHICH WE HOPE IS NOT PERMANENT. WHILE MORE IMPORT LIBERALIZATION WOULD START THIS PROCESS MOVING, IT MIGHT BE WELL FOR US TO UNDERTAKE A THOROUGH REVIEW OF ACTIONS THAT MIGHT BE TAKEN TO OPEN JAPAN'S MARKETS TO IMPORTS--A REVIEW THAT WE WOULD HOPE WOULD NOT FOCUS EXCLUSIVELY ON LISTS OF (OFTEN HARD-CORE) QR'S THAT MIGHT BE RELAXED OR OF U.S. PRODUCTS THAT MIGHT BE PURCHASED TO PROVIDE TEMPORARY PALLIATIVES BUT WHICH WOULD BE IN THE BROAD CONTEXT OF OVERALL POLICY STATED IN THE PARM (TOKYO 4077). WE WOULD HOPE FOR A REVIEW ADDRESSING SQUARELY THE UNDERLYING PROBLEMS OF SECURING ACCESS TO A MARKET WITH INSTITUTIONAL CHARACTERISTICS THAT MAKE IT DIFFICULT TO PENETRATE. WE WOULD NOT EXAGGERATE, TO EITHER WASHINGTON OR THE JAPANESE, THE LIKELY SHORT-TERM BENEFITS, IN DOLLAR TERMS, OR OUR SUGGESTED COURSE. YET, BOTH IN TERMS OF WHAT MIGHT BE THE MOST USEFUL INITIATIVE

IN CURRENT CIRCUMSTANCES, AND OF SOLVING PROBLEMS RATHER THAN JUST LEANING TO LIVE WITH THEM, LAUNCHING A CONCERTED EFFORT TO OPEN UP THE JAPANESE MARKET SEEMS PARTICULARLY ATTRACTIVE.

18. THE JAPANESE THEMSELVES MIGHT EVEN SEE CONSIDERABLE
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VALUE IN SUCH A COURSE AS A MEANS OF REDUCING JAPAN'S EXPOSURE TO COMPLAINTS FROM FRUSTRATED U.S. AND EUROPEAN TRADERS. IT IS A FAIR READING OF EARLIER STATEMENTS BY PRIME MINISTER FUKUDA, HOWEVER, THAT HE RECOGNIZES THE VIRTUES OF GRADUAL APPRECIATION OF THE YEN, BOTH AS MEANS OF ASSISTING IN DOMESTIC STABILIZATION AND AS AN ANSWER TO FOREIGN CRITICISM OF JAPAN'S EXTERNAL STRENGTH, NO OBSERVER, INDEED, CAN BE TOTALLY UNCONSCIOUS OF GERMAN EXPERIENCE OVER THE YEARS WITH D MARK APPRECIATION. THUS JAPAN MAY ULTIMATELY PREFER THIS OPTION, RELYING ON AID TO SPECIFIC INDUSTRIES TO BAIL OUT THE NONCOMPETITIVE AND ON THE ACCEPTABILITY ABROAD OF SUCH A COURSE.
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Review Date: 29-Nov-2004 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2077283
Secure: OPEN
Status: NATIVE
Subject: JAPAN AND TARGETS FOR MACRO-ECONOMIC PERFORMANCE
TAGS: EFIN, ECON, JA
To: STATE
Type: TE
vdkgvwkey: odbc://SAS/SAS.dbo.SAS_Docs/5e9be378-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
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